REPORT NO. 2010-141
MARCH 2010

UNIVERSITY OF NORTH FLORIDA

Operational Audit

For the Fiscal Year Ended
June 30, 2009

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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Mr. John A. Delaney, President

Notes: (1) Student body president.
(2) Faculty association president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).

The audit team leader was Melinda G. Jones, CPA, and the audit was supervised by John P. Duffy, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF NORTH FLORIDA

SUMMARY

Our operational audit for the fiscal year ended June 30, 2009, disclosed the following:

Finding No. 1: The University entered into an $80 million guaranteed maximum price (GMP) contract for construction of the Osprey Fountains Housing project, of which $9.8 million, or approximately 12 percent of the GMP amount, was based on estimates of a design-build firm without obtaining detailed documentation to support such estimates. In addition, $35.8 million, or approximately 45 percent of the GMP amount, was awarded to subcontractors without competitive selection. As such, the University had limited assurance that it had realized maximum costs savings for this project.

Finding No. 2: University procedures for ensuring that change orders for construction projects are properly approved and reported to the Board of Trustees needed improvement.

Finding No. 3: The University needed to enhance its procedures for ensuring that payment and performance bonds for construction projects are equal to the contract price and filed with the Clerk of the Court.

Finding No. 4: The University needed written procedures or guidelines prescribing minimum liability insurance coverage for design professionals.

Finding No. 5: The University needed to establish procedures for ensuring that construction contractors maintain required insurance coverages.

Finding No. 6: The University needed to improve its procedures to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding the notification of individuals of the purpose for collecting their social security numbers.

Finding No. 7: The University needed to enhance its information technology security awareness program to ensure that users periodically provide a written acknowledgment that they have read and understand the University's security awareness program.

BACKGROUND

The University of North Florida (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The faculty association president and student body president also are members.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

The results of our financial audit of the University for the fiscal year ended June 30, 2009, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2009, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Our review of four construction projects in progress during the audit period included: Student Union, $43 million; Osprey Fountains Housing, $80 million; Brooks College of Health Addition, $10 million; and Stadium Renovations, $3 million. The University's administration of its construction program needed improvement as discussed in finding Nos. 1 through 5 below.

Finding No. 1: Design-Build Construction Contract

Pursuant to Section 1013.45(1), Florida Statutes, the University, on June 28, 2007, entered into an $80 million guaranteed maximum price (GMP) contract for construction of the Osprey Fountains Housing project after selecting a design-build firm based on a design-build proposal. Board of Governors Regulation 14.007, *Competitive Negotiation*, requires that a contract for design-build services be negotiated based on the design-build proposal, and provide a GMP for all professional services and construction costs, which shall include reimbursable costs plus fees for design, project management, overhead, and profit. Under a GMP contract, the University may realize cost savings if the actual cost of the project is less than the GMP. Cost savings are generally maximized under a GMP contract when fees are negotiated for design, project management, and overhead and profit; subcontracts are awarded on a competitive basis; and project costs are closely monitored.

The project was substantially completed in August 2009. Our review of the University's procedures for negotiating, contracting with, and monitoring the design-build firm's administration of the project disclosed the following:

- The University did not require that the design-build firm provide a detailed final GMP proposal for all components of the project. The final negotiated GMP proposal should provide the initial costs for all components of the project budget to serve as a detailed statement supporting the contract sum and be used in preparing periodic progress payments. The design-build firm submitted a proposal dated February 16, 2007, identifying direct costs, indirect costs, and allowances; however, the proposal did not identify the design-build firm's overhead, profit, and management fee in sufficient detail to provide a basis for negotiating the GMP contract. Instead, these items were combined with the various direct cost construction trade divisions (site work, concrete, steel, carpentry, HVAC/plumbing, etc.) and each construction trade division was proposed as a lump-sum cost. When the contract was subsequently prepared, the costs in the various construction trade divisions were reduced for the overhead, profit, and management fee, and combined with the general conditions fee as discussed below.

  The design-build contract provided for a combined management and general conditions fee totaling $9,849,236, or approximately 12 percent of the GMP amount. The University did not require a detailed itemization supporting the basis for the fee, and overhead and profit amounts were not specifically addressed in the contract; however, the periodic invoices included a combined overhead and management fee category. Management fees are generally supported by a staffing schedule, general conditions are generally supported by an itemized listing of construction services, and overhead and profit are normally separately negotiated based on total construction costs. Absent detailed support, the University was limited in its ability to evaluate the reasonableness of these fees.

- The University's contract with the design-build firm did not require that the firm competitively award all subcontracts. Instead, the contract indicated the GMP was determined with technical and pricing input from the design-build firm's key subcontractors and business units and provided for using those key subcontractors

and business units on the project. As a result of this procedure, the design-build firm's key subcontractors and business units were awarded 10 subcontracts ranging from $150,000 to $8.5 million, and totaling $35,838,435, or approximately 45 percent of the GMP amount, on a noncompetitive basis. University records did not evidence that these subcontracts were obtained at the lowest and best price consistent with acceptable quality, because only one bid was requested and received. Consequently, the University could not, in these instances, be assured that it had realized maximum cost savings.

According to the University's Director of Facilities Planning and Construction, the absence of detailed documentation generally resulted from the design-build firm initially providing a lump-sum proposal, and the final contract being written as part lump-sum and part GMP. The University intends to obtain an independent post-audit of its major construction projects conducted by a certified public accounting firm when the project is complete. However, an independent post-audit does not substitute for adequate contract administration procedures, including negotiating costs for management fees, general conditions, and overhead and profit, and competitive selection of subcontractors.

Recommendation: To maximize cost savings in future GMP contracts, the University should strengthen its construction contract administration procedures to ensure that all project-related fees and costs are clearly identified in cost proposals, fees and costs are negotiated as appropriate based on documented benchmarks, and subcontracts are awarded based on competitive selection.

Finding No. 2: Construction Change Orders

Section 1013.48, Florida Statutes, authorizes the University's Board of Trustees to adopt policies allowing a designated individual to approve change orders in the name of the Board for preestablished amounts, provided that approvals shall be for the purpose of expediting the work in progress and shall be reported to the Board and entered into its official minutes. Pursuant to a Board approved memorandum, the University's President was delegated authority to approve change orders of $100,000 or less, to approve change orders exceeding $100,000 up to $1 million in consultation with the Board of Trustees' Finance and Audit Committee Chair, and to further delegate authority for change order approval to the Office of Administration and Finance. Change orders exceeding $1 million required the approval of the full Finance and Audit Committee. The President further delegated full authority to approve change orders to the Vice President of Administration and Finance, who partially delegated authority to the Director of Facilities Planning and Construction for change orders of $50,000 or less, and for cumulative change orders which, in the aggregate, do not exceed five percent of the awarded construction price if greater than $5 million, or ten percent of the awarded construction price if $5 million or less.

The University's procedure for reporting change orders to the Board was to include them in quarterly capital project update reports. Our review of 81 change orders made from June 2007 through June 2009, for the four construction projects in our review, disclosed the following:

- Twelve deductive change orders, totaling $25,407,229, were not included in the quarterly capital project update reports and, therefore, were not reported to the Board or entered in the minutes. Nine of the 12 change orders were related to the University's owner direct-purchase program and totaled $24,069,597.
- Eight additive change orders, totaling $3,208,593, were not included in the quarterly capital project update reports and, therefore, were not reported to the Board or entered in the minutes. Three of the 8 change orders were related to the University's owner direct-purchase program and totaled $537,421.

- Three additive change orders totaling $186,732.78 and one deductive change order for $88,664.60 were approved by the Director of Facilities Planning and Construction although each exceeded the $50,000 delegated authority.
- For the Student Union project with an awarded construction price (before change orders) of approximately $40 million, the Director of Facilities Planning and Construction approved 19 change orders, totaling $794,964, after the aggregate of previous change orders exceeded five percent of the construction price.

Upon inquiry, we were advised by the University's Director of Facilities Planning and Construction that the University does not perceive owner direct purchase change orders to require approval, that some change orders were already contemplated in the overall budget and did not require approval, and that other change orders not properly approved were the result of oversights. However, the policies adopted by the Board designating the individuals and preestablished amounts for delegated change order approvals did not differentiate between additive and deductive change orders and did not address change orders that may have been contemplated in the overall budget.

Recommendation: The University should ensure that all change orders are properly approved by those with authority to do so, reported to the Board, and entered into the official Board minutes.

Finding No. 3: Payment and Performance Bonds

Section 255.05(1)(a), Florida Statutes, requires a payment and performance bond with a surety insurer authorized to do business in the State when a governmental entity contracts to construct, remodel, or renovate a facility where the project costs exceed $200,000. For the four construction projects in our review, for which payment and performance bonds totaling approximately $136 million were required, we noted the following:

- The bond for the Student Union project was $3,120,195 less than the $43,207,269 final contract amount. The difference resulted from net additions to the contract from change orders. Section 255.05(1)(c), Florida Statutes, requires that the amount of the bond equal the contract price. Upon inquiry, we were advised by the University's Director of Facilities Planning and Construction that the construction manager does not change the bond until all change orders have been approved by the University, which will occur before the final payment is made. However, our review indicated that change orders in excess of $1.9 million were approved as of July 27, 2008, more than one year prior to project completion. Additionally, the University paid the construction manager approximately $25,000 for the bond increases from change orders; however, the additional bond coverage had not been acquired as of July 31, 2009. When payment and performance bonds are not timely increased, the University is at risk for the unbonded portion of the project in the event of contractor default.
- The bonds for the Osprey Fountains Housing and Student Union projects, totaling approximately $123 million, were not filed with the Clerk of Court. Section 255.05(1)(a), Florida Statutes, requires that the executed bond be delivered to the public owner and recorded in the public records of the county where the improvement is located before work is commenced. Upon inquiry, we were advised that University Facilities Planning and Construction personnel were unaware they were responsible for following up on the recording with the Clerk of Court.

Recommendation: The University should enhance its procedures for administering construction projects to ensure that, when construction project costs exceed $200,000, payment and performance bonds are properly filed with the Clerk of the Court and additional bonds are timely acquired.

Finding No. 4: Architect Liability Insurance

Although the University's contracts included a requirement to maintain professional liability coverage at a designated amount and to provide a copy of the insurance certificate at the signing of the contract, the University had not developed written procedures or guidelines to establish minimum insurance requirements for design professionals, such as architects and engineers.

For the four construction projects in our review (Student Union, $43 million; Osprey Fountains Housing, $80 million; Brooks College of Health Addition, $10 million; and Stadium Renovations, $3 million), the University required that the architect or design professional maintain liability insurance coverage of $1 million for the Osprey Fountains Housing project and $2 million for each of the other projects.

Upon inquiry, we were advised by the University's Director of Facilities Planning and Construction that the requirements for professional liability insurance are specified in each request for qualifications, and that the Osprey Fountains Housing liability insurance requirement was negotiated with the participation and consent of the Vice President of Administration and Finance and the General Counsel's Office. Additionally, we were advised by the Vice President of Administration and Finance that the University generally requires $2 million of professional liability insurance, regardless of project cost. However, it was not apparent from University records why $2 million of coverage was required for each of the three projects with cumulative costs of $56 million, but only $1 million of coverage was required for an $80 million project. In addition, it is unclear whether the level of coverage was consistent with the Board's insurance philosophy as there were no Board policies, written procedures, or guidelines prescribing minimum liability insurance requirements for design professionals. Developing written procedures or guidelines would help provide guidance to University personnel as to the Board's insurance philosophy and protect the University in the event that deficiencies exist in the work performed by these professionals.

Recommendation: The University should establish written procedures or guidelines prescribing minimum liability insurance coverage requirements for design professionals.

Finding No. 5: Contractor Insurance Requirements

The University's construction contracts required that contractors provide certificates of insurance for certain insurance coverages prior to commencement of work on University projects, and evidence of renewals at least 30 days prior to the policy expiration date. The required insurance coverages include commercial general liability, automobile liability, workers' compensation, and builder's risk. Additionally, the contracts required that the University Board of Trustees, the State of Florida, and the Florida Board of Governors be named as insureds on the commercial general liability and builder's risk coverages.

Our review of the University's construction files for certificates of insurance for the four projects in our review disclosed the following:

- Certificates of insurance for the required builder's risk policies were not available for the Student Union and Stadium Renovations projects.

- The builder's risk policy for the Brooks College of Health Addition expired 47 days prior to substantial completion of the project and a renewal certificate was not obtained from the contractor.
- The certificates of insurance for the Stadium Renovations and Brooks College of Health Addition did not name the University's Board of Trustees, State of Florida, and Florida Board of Governors as additional insureds.

Upon audit inquiry, we were advised that the University did not have a procedure for reviewing certificates of insurance prior to commencement of work on the projects or for monitoring renewals.

Recommendation: The University should establish procedures to ensure that construction contractors are properly insured in accordance with applicable contractual requirements to limit exposure to the various possible risks of loss.

Finding No. 6: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes, and recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Pursuant to Section 119.071(5)(a), Florida Statutes, the University may not collect an individual's SSN unless the University has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or it is imperative for the performance of the University's duties and responsibilities as prescribed by law. Additionally, this section requires the University, as it collects an individual's SSN, to provide the individual with a copy of the written statement indicating the purpose for collecting the number. Further, this section provides that SSNs may not be used for any purpose other than the purpose provided in the written statement.

The University collects SSNs from students, employees and prospective employees, and certain contracted vendors for record keeping and tax related purposes. Our inquiry and review disclosed that the University had assigned unique student and employee identification numbers as an alternative to minimize the need for collecting, maintaining, and using SSNs for identification purposes, developed a written statement indicating the purposes for collecting SSNs, and posted the written statement to its Web site. However, contrary to the above law, the University did not provide the written statement to individuals as the SSNs were collected and did not reference the Web site or written notice on University forms when SSNs were requested.

Subsequent to our inquiry, University management initiated actions to ensure that individuals were directed to the written notice when SSNs were collected to comply with the requirements of Section 119.071(5)(a), Florida Statutes.

Recommendation: The University should continue its efforts to ensure compliance with the requirements of Section 119.071(5)(a), Florida Statutes.

Finding No. 7: Security Awareness

University Policy 6.0050, *Network Acceptable Use Policy*, provides standards for acceptable uses of University computing and information technology (IT) resources including, in part, equipment, software, networks, data, and

telecommunications equipment whether owned, leased, or otherwise provided by the University. The University maintains IT systems with significant nonpublic records (such as student record information) and other records that contain sensitive information. Employees must be aware of their responsibilities and the steps the University is willing to take to ensure security through documentation describing security policies and procedures and acknowledgement of an individual's responsibility. Numerous University employees have access to such nonpublic and sensitive information in the performance of assigned duties. However, the University had not developed procedures to ensure that employees acknowledge that they have read and understand the University's *Network Acceptable Use Policy*.

The University requires employees to annually certify (by e-mail) that they have reviewed and understand certain policies and regulations; however, the *Network Acceptable Use Policy* is not one of the policies included in the certification. A periodic certification of the *Network Acceptable Use Policy* could reduce the risk of University resources being unintentionally compromised by employees while performing their assigned duties and could enhance the University's ability to take disciplinary action, should it be necessary, against employees misusing data or IT resources.

Recommendation: The University should enhance its IT security awareness program to ensure that users periodically provide written acknowledgement that they have read and understand the University's security policies.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2008-166.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the University had taken corrective actions for findings included in our report No. 2008-166. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2008-09 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing University personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and

examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the University's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each university on a biennial basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Security awareness and training program regarding the confidentiality of information.	Examined supporting documentation related to the University's information technology (IT) security awareness and training program.
Procedures to timely prohibit terminated employees' access to electronic data files.	Tested employees who terminated employment during the audit period and examined supporting documentation evidencing when the University terminated access privileges.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the University's fraud policy and related procedures.
Statement of financial interests requirements of Section 112.3145(2), Florida Statutes.	Determined whether the University Board of Trustees had timely filed statements of financial interests with the Florida Commission on Ethics.
Reporting of institute and centers information as required by the Board of Governors (BOG).	Examined supporting documentation to determine whether the University had provided accurate and complete information for its institutes and centers to the BOG.
Social security number (SSN) requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the University had provided individuals with a written statement as to the purpose of collecting their social security numbers.
Textbook affordability requirements of Section 1004.085, Florida Statutes.	Reviewed the University Bookstore Web site to determine whether a list of textbooks required for each course was listed at least 30 days prior to the first day of classes.
University's pharmaceutical inventory.	Reviewed University procedures for maintaining prescription and over-the-counter pharmaceutical inventories.
Graduate and professional tuition rates and out-of-state fees.	Compared tuition fees charged for graduate and professional courses, to amounts authorized, to ensure fee adjustments did not exceed 10 percent of previous year's fees.
Procedures for student activity, service, health, and athletic fees assessed.	Determined that the University retained the fees in a separate fund and did not transfer the fees to a service organization. Applied analytical procedures to determine whether the sum of fees did not exceed cap pursuant to Section 1009.24(4)(d), Florida Statutes.
Procedures for grade changes.	Tested students with grade changes and reviewed supporting documentation evidencing proper authority for grade changes.
Procedures for issuance of diplomas.	Tested students that were issued diplomas and reviewed transcripts to determine whether students earned a corresponding degree.
Procedures for payroll certifications.	Tested payroll transactions to determine whether the University performed payroll certifications of time worked and leave taken.
Procedures for faculty activity reporting.	Tested faculty activity reports to determine whether reports evidenced timely approval.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Procurement policies and procedures.	Tested significant dollar purchases and examined supporting documentation evidencing compliance with BOG regulations and University policies and procedures.
Procedures for purchasing card transactions.	Tested monthly statements and examined supporting documentation for adequacy of support, propriety of charges, and evidence of review by appropriate personnel.
Multi-use (Osprey 1) card procedures.	Examined procedures and supporting documentation to determine whether the University had adequate controls in place over the issuance of, and accounting for, its Osprey 1 cards.
Travel costs and reimbursements for travel costs.	Examined travel policies and procedures. Tested employee travel vouchers and examined supporting documentation to determine whether: (1) the University did not pay for travel to a terrorist state; (2) mileage and per diem rates were in accordance with Florida Statutes; and (3) vouchers were appropriately signed by supervisory personnel.
Procedures for insuring architects and engineers.	Tested significant or representative major construction projects in progress during the audit period to determine whether architects and engineers engaged during the audit period were properly selected and, where applicable, had evidence of required insurance.
Procedures for direct material purchases.	Tested construction projects and requested supporting documentation evidencing whether the University considered direct material purchases.
Procedures for timeliness of final certificates of occupancy and postaudit of payments for construction projects.	Tested completed construction projects to determine if the University timely obtained final certificates of occupancy and performed a timely postaudit of payments to construction management entities.
Procedures for insuring buildings.	Tested insurance on buildings to determine whether insurance coverage was updated for major asset acquisitions and disposals occurring in the audit period.
Procedures for construction contract administration.	Tested construction contract administration procedures to determine whether GMP construction project costs were negotiated on a competitive basis and closely monitored.

EXHIBIT B
MANAGEMENT'S RESPONSE

OFFICE OF THE PRESIDENT
John A. Delaney

UNF
UNIVERSITY of NORTH FLORIDA.

March 15, 2010

Mr. David W. Martin
Auditor General
State of Florida
111 West Madison Street
Claude Pepper Building, Suite G-74
Tallahassee, FL 32399-1450

Dear Mr. Martin:

In connection with the University of North Florida Operational Audit for the fiscal year ending June 30, 2009, enclosed are the University's responses to the preliminary and tentative audit findings.

Should you have any questions or need additional information, please do not hesitate to contact me.

Sincerely,

John A. Delaney
President

Enclosure

1 UNF Drive Jacksonville, Florida 32224-2645
Tel: (904) 620.2500 Fax: (904) 620.2515

University of North Florida
Preliminary and Tentative Responses
March 15, 2010

Finding No. 1: Design-Build Construction Contract

Recommendation 1: To maximize cost savings in future GMP contracts, the University should strengthen its construction contract administration procedures to ensure that all project-related fees and costs are clearly identified in cost proposals, fees and costs are negotiated as appropriate based on documented benchmarks, and subcontracts are awarded based on competitive selection.

Response: Currently all competitive bid and construction management contracts do require each subcontract in excess of $200,000 to be separately bid by the general contractor or CM, as the case may be. The audit recommendation is based on its analysis of the design-build contract for the Osprey Fountains housing facility, the subcontracts for which were not separately bid. In that project, the University strictly complied with the statutory selection requirements for the design-builder.

While Florida law does not mandate design-builders on state university projects to separately bid subcontracts, and while the GMP component of the project provides certain protections from excessive second tier costs, in future design-build contracts UNF will require separate bidding of subcontracts by the design-builder.

UNF is reviewing the GMP contract administration procedures to make any necessary changes to ensure that all project-related fees and costs are clearly identified in cost proposals, fees and costs are negotiated as appropriate based on documented benchmarks, and subcontracts in design-build jobs are awarded based on competitive selection.

Finding No. 2: Construction Change Orders

Recommendation 2: The University should ensure that all change orders are properly approved by those with authority to do so, reported to the Board, and entered into the official Board minutes.

Response: Procedures for change order approval have been clarified in the procedures manual. Quarterly reports on construction to the Board of Trustees will reference all change orders issued for the period, so that all changes orders may be entered into the official Board minutes.

The Vice President, Administration and Finance will submit to the University's Board of Trustees a recommended modification to the Resolution on Presidential Authority granting the University's President direct authority to approve (a) change orders attributable to the University's procurement of materials via the Owner Direct Purchasing Program and (b) deductive change orders attributable to the return of unused contingency funds.

The project budget carried an FF&E line budget item for the purchase and installation of food service equipment. Due to the complexity of installation, coordination of subtrades, delivery schedules and warranty issues associated with this equipment, the University believed that it would

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be advantageous to the project if the FF&E responsibility was turned over to the CM firm. This Change Order valued at about $1.2 Million is the reason the aggregate Change Order total exceeded the 5% limit. In the future, UNF will ensure appropriate approvals are obtained and reported.

Finding No. 3: Payment and Performance Bonds

Recommendation 3: The University should enhance its procedures for administering construction projects to ensure that, when construction project costs exceed $200,000, payment and performance bonds are properly filed with the Clerk of the Court and additional bonds are timely acquired.

Response: The University has now established procedures to ensure that payment and performance bond amendments on projects over $200,000 are filed with the Clerk of the Court. While failure to file with the Clerk of the Courts does not limit the security offered by the bond on the project, and while the total cost of the work usually decreases due to credits based on Owner Direct Purchase, filing is a statutory requirement that the University needs to meet. Accordingly, UNF now requires that the general contractor or CM file with the Clerk of the Court an amendment to the bond whenever the value of the contract increases and submit proof of filing with each monthly payment request.

Finding No. 4: Architect Liability Insurance

Recommendation 4: The University should establish written procedures or guidelines prescribing minimum liability insurance coverage requirements for design professionals.

Response: It has been UNF's standard requirement that consultants maintain minimum professional liability insurance coverage in the amount of $2 million in the aggregate. In the case of the Osprey Fountains project, the design-builder was permitted to maintain its existing professional liability limits of $1 million based on the significant impact of higher limits on the cost the project, the common identity of the design professional and the construction contractor, and an assessment of the design-builder's net worth.

The University will establish written guidelines prescribing that all construction projects will require professional liability coverage in the aggregate amount of $2 million unless the Vice President, Administration & Finance determines that lower coverage limits are appropriate based upon a consideration of (a) the nature of the project, (b) the cost of such coverage to the project, (c) any identity in common between the design professional and the construction contractor and (d) the net worth of the professional providing such insurance coverage.

Finding No. 5: Contractor Insurance Requirements

Recommendation 5: The University should establish procedures to ensure that construction contractors are properly insured in accordance with applicable contractual requirements to limit exposure to the various possible risks of loss.

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March 15, 2010

Response: UNF will engage an independent consultant to review insurance and bonding requirements on all future major projects and will undertake the compliance necessary to ensure that evidence of insurance for the required builder's risk policies (a) remains current, (b) is filed in the project file and with the Office of EH&S, and (c) continues to name the University's Board of Trustees, State of Florida, and Florida Board of Governors as additional insureds.

Finding No. 6: Collection of Social Security Numbers

Recommendation 6: The University should continue its efforts to ensure compliance with the requirements of Section 119.071(5)(a), Florida Statutes.

Response: The University recognizes the importance of protecting individuals SSNs, as well as, the conditions and requirements of Section 119.071(5)(a), Florida Statutes. Procedures have been put in place to continually evaluate when it is necessary to collect SSNs and ensure that when they are required and requested individuals are appropriately provided or directed to a written notice in accordance with these requirements.

Finding No. 7: Security Awareness

Recommendation 7: The University should enhance its IT security awareness program to ensure that users periodically provide written acknowledgement that they have read and understand the University's security policies.

Response: The University's Network Acceptable Use policy will be presented annually to all employees via an online policy acknowledgment process. Employees must certify that they have read and will comply with the policy and will receive automated reminders until they have performed this task. Employees who have not responded within a specified time period will receive administrative follow up contact.